

# **Advanced Technology Academy**

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**Financial Report**  
**with Supplemental Information**  
**June 30, 2007**

# Advanced Technology Academy

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## Independent Auditor's Report

To the Board of Directors  
Advanced Technology Academy  
Dearborn, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Advanced Technology Academy as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Advanced Technology Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Advanced Technology Academy as of June 30, 2007 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors  
Advanced Technology Academy

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Advanced Technology Academy's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2007 on our consideration of the Academy's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

October 23, 2007

# **Advanced Technology Academy**

## **Management's Discussion and Analysis**

This section of Advanced Technology Academy's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2007. Please read it in conjunction with the Academy's basic financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand Advanced Technology Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant fund, the General Fund, with all other funds presented in one column as nonmajor funds.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### **Basic Financial Statements**

Academy-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)  
Budgetary Information for Major Funds

Other Supplemental Information

### ***Reporting the Academy as a Whole - Academy-wide Financial Statements***

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

# Advanced Technology Academy

## Management's Discussion and Analysis (Continued)

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, food services, and athletics. Unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

### ***Reporting the Academy's Most Significant Funds - Fund Financial Statements***

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by state law and by bond covenants. However, the Academy may establish other funds to help it control and manage money for particular purposes (the Food Services Fund and Athletics Fund are examples) or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Academy use the following accounting approach:

**Governmental Funds** - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

# Advanced Technology Academy

## Management's Discussion and Analysis (Continued)

### The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2007 and 2006.

TABLE I

	Governmental Activities	
	2007	2006
<b>Assets</b>		
Current and other assets	\$ 1,862,261	\$ 1,930,936
Capital assets	<u>544,426</u>	<u>381,950</u>
Total assets	2,406,687	2,312,886
<b>Liabilities</b>		
Current liabilities	1,426,331	1,715,866
Long-term liabilities	<u>73,817</u>	<u>35,523</u>
Total liabilities	<u>1,500,148</u>	<u>1,751,389</u>
<b>Net Assets</b>		
Invested in property and equipment - Net of related debt	393,337	125,280
Unrestricted	<u>513,202</u>	<u>436,217</u>
Total net assets	<u><b>\$ 906,539</b></u>	<u><b>\$ 561,497</b></u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were \$906,539 at June 30, 2007. Capital assets, net of related debt totaling \$393,337, compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. The debt will be repaid from General Fund revenue as the debt service comes due. The remaining amount of net assets (\$513,202) was unrestricted.

The \$513,202 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

# Advanced Technology Academy

## Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2007 and 2006.

TABLE 2

	Governmental Activities	
	2007	2006
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 79,707	\$ 36,627
Federal grants and entitlements	508,406	281,672
State categoricals	331,087	64,669
General revenue:		
State foundation allowance	6,811,155	6,133,334
Other	55,880	46,757
Special item - Loss on disposal of capital assets	-	(1,908)
Total revenue	7,786,235	6,561,151
<b>Functions/Program Expenses</b>		
Instruction	3,133,795	2,549,538
Support services	3,780,632	3,390,812
Food services	304,128	223,491
Athletics	24,767	29,366
Community services	-	-
Interest on long-term debt	14,386	18,563
Depreciation (unallocated)	183,485	110,625
Total functions/program expenses	7,441,193	6,322,395
<b>Increase in Net Assets</b>	<b>\$ 345,042</b>	<b>\$ 238,756</b>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$7,441,193. Certain activities were partially funded from those who benefited from the programs (\$79,707) or by other governments and organizations that subsidized certain programs with grants and contributions (\$839,493). We paid for the remaining "public benefit" portion of our governmental activities with \$6,811,155 in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

# **Advanced Technology Academy**

## **Management's Discussion and Analysis (Continued)**

The Academy experienced an increase in net assets of \$345,042. Key reasons for the change were an operating surplus in the General Fund of \$77,509 for the fiscal year, additions to capital assets of \$162,476 net of related debt and depreciation, and a net reduction in long-term debt of \$105,581. Operating revenues increased from the previous year due to increased student enrollment and significantly higher state and federal categorical revenues for added student needs.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

### **The Academy's Funds**

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$513,202, which is an increase of \$76,985 from last year. The primary reason for the increase is as follows:

- In the General Fund, our principal operating fund, the fund balance increased \$77,509 to \$513,081. The change is mainly due to an improved operating margin resulting from continued growth in student enrollment and operating revenues.

The General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds fund balance remained stable from the prior year's, showing a net decrease of \$524 to \$121.

### **General Fund Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were significant revisions made to the 2006-2007 General Fund original budget. Budgeted revenues were increased \$536,562 due to the enrollment of more students than was originally projected and significant increases in state and federal categorical revenue for added student needs.

# Advanced Technology Academy

## Management's Discussion and Analysis (Continued)

Budgeted expenditures were increased \$612,306 primarily due to added operating expenditures as the result of actual enrollment exceeding projections and for added student needs. The amount of transfers to other funds established in the amended budget was \$52,500 and represents support provided by the General Fund to other functions.

The Academy did not have any significant budget to actual variances.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

As of June 30, 2007, the Academy had \$544,426 invested in a broad range of capital assets, including leasehold improvements, technology equipment, vehicles, and furniture and fixtures. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$162,000, or 43 percent, from last year.

	2007	2006
Leasehold improvements	\$ 200,376	\$ 170,456
Technology equipment	201,386	179,967
Furniture and fixtures	33,205	31,527
Vehicles	109,459	-
Total capital assets	<u>\$ 544,426</u>	<u>\$ 381,950</u>

This year's additions of \$345,961 included leasehold improvements, technology equipment, vehicles, and furniture and fixtures. New debt in the amount of \$113,724 was issued related to these additions.

There are no major capital projects planned for the 2007-2008 fiscal year. We anticipate capital additions will be much lower than the 2006-2007 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

#### ***Debt***

At the end of this year, the Academy had \$151,089 of outstanding long-term debt versus \$256,670 in the previous year. Long-term debt consists of a note payable obtained to finance leasehold improvements and a capital lease for transportation vehicles purchased.

We present more detailed information about our long-term liabilities in the notes to the financial statements.

# **Advanced Technology Academy**

## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

Our board and administration consider many factors when setting the Academy's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The proposed blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 counts, respectively. The 2008 original budget was adopted in June 2007, based on an estimate of students who will be enrolled in September 2007. Approximately 91 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008 school year, we anticipate that the fall student count will be above the estimates used in creating the 2007-2008 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds may not be sufficient to fund the appropriation.

We expect continued improvement for the Academy during the 2007-2008 school year. Operational improvements include continued implementation of a nationally recognized award-winning educational program known as Amistad Academy for the new elementary and middle school comprising grades K-8; continued partnership with Ford Motor Company and full implementation of the Ford Partnership for Advanced Studies Program; continued partnership with Lake Superior State University to offer post-secondary courses for high school students in career pathways such as engineering, business, and education; and expansion of online course offerings for students through the Michigan Virtual High School. Other planned operational improvements include expanding supplemental educational programs for students most at-risk of academic failure in the areas of in-classroom assistance and after-school tutoring, to be funded by increased state and federal categorical revenues (particularly State Section 31-a At-Risk and Federal Title I, Part A). These program enhancements will enable the Academy to better serve our students and continue to improve educational performance.

# Advanced Technology Academy

## Statement of Net Assets June 30, 2007

	Governmental Activities
<b>Assets</b>	
Cash (Note 3)	\$ 397,480
Receivables - Intergovernmental	1,338,297
Prepaid costs and deposits (Note 6)	126,484
Capital assets - Net (Note 5)	<u>544,426</u>
Total assets	2,406,687
<b>Liabilities</b>	
Accounts payable	77,961
Accrued payroll and other liabilities (Note 8)	511,644
State aid anticipation note (Note 10)	739,756
Deferred revenue (Note 4)	19,698
Long-term liabilities (Note 7):	
Due within one year	77,272
Due in more than one year	<u>73,817</u>
Total liabilities	<u>1,500,148</u>
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	393,337
Unrestricted	<u>513,202</u>
Total net assets	<u><u>\$ 906,539</u></u>

# Advanced Technology Academy

## Statement of Activities Year Ended June 30, 2007

	Program Revenues			Governmental Activities
			Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services			
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
Instruction	\$ 3,133,795	\$ -	\$ 469,838	\$ (2,663,957)
Support services	3,780,632	-	158,565	(3,622,067)
Food services	304,128	78,645	211,090	(14,393)
Athletics	24,767	1,062	-	(23,705)
Interest on long-term debt	14,386	-	-	(14,386)
Depreciation (unallocated)	183,485	-	-	(183,485)
Total governmental activities	<u>\$ 7,441,193</u>	<u>\$ 79,707</u>	<u>\$ 839,493</u>	(6,521,993)
General revenue:				
State aid not restricted to specific purposes				6,811,155
Interest and investment earnings				25,182
Other				<u>30,698</u>
Total general revenue				<u>6,867,035</u>
<b>Change in Net Assets</b>				345,042
<b>Net Assets - Beginning of year</b>				<u>561,497</u>
<b>Net Assets - End of year</b>				<u><b>\$ 906,539</b></u>

# Advanced Technology Academy

## Governmental Funds Balance Sheet June 30, 2007

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash (Note 3)	\$ 397,343	\$ 137	\$ 397,480
Receivables - Intergovernmental	1,330,609	7,688	1,338,297
Due from other funds	1,302	-	1,302
Prepaid costs and deposits (Note 6)	126,384	100	126,484
Total assets	<u>\$ 1,855,638</u>	<u>\$ 7,925</u>	<u>\$ 1,863,563</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 70,880	\$ 6,502	\$ 77,382
Accrued payroll and other liabilities (Note 8)	511,644	-	511,644
State aid anticipation note (Note 10)	739,756	-	739,756
Due to other funds	579	1,302	1,881
Deferred revenue (Note 4)	19,698	-	19,698
Total liabilities	1,342,557	7,804	1,350,361
<b>Fund Balances</b>			
Reserved - Prepaid costs and deposits	126,384	100	126,484
Unreserved - Undesignated - Reported in General Fund and Special Revenue Fund	386,697	21	386,718
Total fund balances	513,081	121	513,202
Total liabilities and fund balances	<u>\$ 1,855,638</u>	<u>\$ 7,925</u>	<u>\$ 1,863,563</u>

# Advanced Technology Academy

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## **Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2007**

**Fund Balance** - Total governmental funds \$ 513,202

Amounts reported for governmental activities in the statement  
of net statement of net assets are different because:

Capital assets used in governmental activities are  
not financial resources and are not reported  
in the governmental funds:

Capital assets	\$ 901,031	
Accumulated depreciation	<u>(356,605)</u>	544,426

Long-term liabilities are not due and payable  
in the current period and are not reported  
in the governmental funds:

Notes payable		(50,654)
Capital leases		<u>(100,435)</u>

**Net Assets** - Governmental activities **\$ 906,539**

# Advanced Technology Academy

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Local sources	\$ 55,880	\$ 79,707	\$ 135,587
State sources	7,131,097	11,145	7,142,242
Federal sources	308,461	199,945	508,406
Total revenue	7,495,438	290,797	7,786,235
<b>Expenditures</b>			
Current:			
Instruction	3,133,795	-	3,133,795
Support services	3,780,632	-	3,780,632
Food services	-	304,128	304,128
Athletics	-	24,767	24,767
Capital outlay	334,737	11,224	345,961
Debt service:			
Principal	219,305	-	219,305
Interest	14,386	-	14,386
Total expenditures	7,482,855	340,119	7,822,974
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	12,583	(49,322)	(36,739)
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	48,798	48,798
Transfers out	(48,798)	-	(48,798)
Proceeds from long-term debt	113,724	-	113,724
Total other financing sources	64,926	48,798	113,724
<b>Net Change in Fund Balances</b>	77,509	(524)	76,985
<b>Fund Balances - Beginning of year</b>	435,572	645	436,217
<b>Fund Balances - End of year</b>	<u>\$ 513,081</u>	<u>\$ 121</u>	<u>\$ 513,202</u>

# Advanced Technology Academy

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007**

**Net Change in Fund Balances** - Total governmental funds \$ 76,985

Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlay as expenditures;  
in the statement of activities, these costs are allocated over their  
estimated useful lives as depreciation:

Depreciation expense	\$ (183,485)	
Capitalized capital outlay	<u>345,961</u>	162,476

Debt issuance is not reported as financing sources on the statement of activities	(113,724)
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Repayment of principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>219,305</u>
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**Change in Net Assets of Governmental Activities** \$ 345,042

# Advanced Technology Academy

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## Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2007

	Student Activities Agency Fund
<b>Assets</b>	
Cash	\$ 467
Due from other funds	<u>579</u>
Total assets	<u><u>\$ 1,046</u></u>
<b>Liabilities</b> - Accounts payable	<u><u>\$ 1,046</u></u>

# **Advanced Technology Academy**

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## **Notes to Financial Statements June 30, 2007**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of Advanced Technology Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

#### **Reporting Entity**

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On April 30, 1999, the Academy entered into a five-year contract with the Lake Superior State University Board of Control to charter a public school academy, which was subsequently extended through June 30, 2010. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Lake Superior State University Board of Control is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Lake Superior State University Board of Control 3 percent of state aid foundation as administrative fees. For the year ended June 30, 2007, the total administrative fees due to Lake Superior State University Board of Control were approximately \$214,600.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the Academy does not contain component units.

#### **Academy-wide and Fund Financial Statements**

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

### **Note I - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. The major individual governmental fund is reported as a separate column in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Academy-wide Financial Statements** - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state aid.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

# Advanced Technology Academy

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## Notes to Financial Statements June 30, 2007

### **Note I - Summary of Significant Accounting Policies (Continued)**

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

The Academy reports the following major governmental fund:

The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Additionally, the Academy reports the following fund type:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Funds include the Food Services Fund and Athletics Fund. Any operating deficit generated by these activities is the responsibility of the General Fund.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash** - Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair market value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds."

Trade receivables are shown net of an allowance for uncollectible amounts. The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

**Prepaid Costs and Deposits** - Certain payments to vendors and security deposits on leases reflect costs applicable to future fiscal years and deposits that the Academy is eligible to receive when leases expire. These are recorded as prepaid items in both Academy-wide and fund financial statements.

# Advanced Technology Academy

## Notes to Financial Statements June 30, 2007

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include leasehold improvements, technology equipment, furniture and equipment, and educational media and library, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Leasehold improvements, technology equipment, furniture and equipment, vehicles, and educational media and library are depreciated using the straight-line method over the following useful lives:

Leasehold improvements	3-4 years
Technology equipment	3-15 years
Furniture and fixtures	10 years
Vehicles	10 years

**Long-term Obligations** - In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data/Reclassifications** - Comparative data is not included in the Academy's financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

# Advanced Technology Academy

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## Notes to Financial Statements June 30, 2007

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activity.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The Academy did not have significant expenditure budget variances.

### **Note 3 - Deposits and Investments**

State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated one bank for the deposit of its funds.

The Academy's deposits consist solely of checking and/or savings accounts at a local bank; therefore, the Academy has not adopted a formal investment policy. The Academy's cash is subject to custodial credit risk.

# Advanced Technology Academy

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of \$590,566 had \$490,566 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Deferred revenue	<u>\$ -</u>	<u>\$ 19,698</u>

# Advanced Technology Academy

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2006	Additions and Reclassifications	Balance June 30, 2007
Capital assets:			
Leasehold improvements	\$ 210,733	\$ 113,719	\$ 324,452
Technology equipment	305,606	113,068	418,674
Furniture and fixtures	38,731	5,450	44,181
Vehicles	-	113,724	113,724
Subtotal	555,070	345,961	901,031
Accumulated depreciation:			
Leasehold improvements	40,277	83,799	124,076
Technology equipment	125,639	91,649	217,288
Furniture and fixtures	7,204	3,772	10,976
Vehicles	-	4,265	4,265
Subtotal	173,120	183,485	356,605
Net governmental capital assets	\$ 381,950	\$ 162,476	\$ 544,426

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

Depreciation expense includes an impairment loss of \$8,761 due to obsolescence of technology equipment and software.

### Note 6 - Operating Lease

The Academy has entered into an operating lease agreement for its buildings through June 30, 2009. The Academy is responsible for insurance, repairs, maintenance, and a percentage of monthly utilities related to the facilities. The Academy incurred rent expense in connection with the lease of approximately \$683,000 for the year ended June 30, 2007. Future minimum annual lease payments under the lease are calculated at the greater of 10 percent of the state foundation grant or \$350,040 per year through 2009.

# Advanced Technology Academy

## Notes to Financial Statements June 30, 2007

### Note 6 - Operating Lease (Continued)

Under the terms of the lease agreement, the lessor will reimburse the Academy for \$147,000 of the leasehold improvements completed during the year ended June 30, 2006, through monthly rent credits of \$3,063, through June 30, 2009. Leasehold improvements were recorded net of the lessor's reimbursement to be received and a prepaid asset was established. At June 30, 2007, the prepaid asset balance related to leasehold improvements is \$73,500 and security deposits related to the lease totaled \$40,000.

### Note 7 - Long-term Debt

The Academy issued notes and other contractual commitments to provide for the payment of certain equipment, leasehold improvements, and transportation equipment. Notes are general obligations of the Academy.

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental activities:					
Note payable	\$ 256,670	\$ -	\$ 206,016	\$ 50,654	\$ 50,654
Capital leases	-	113,724	13,289	100,435	26,618
Total governmental activities	<u>\$ 256,670</u>	<u>\$ 113,724</u>	<u>\$ 219,305</u>	<u>\$ 151,089</u>	<u>\$ 77,272</u>

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 77,272	\$ 6,314	\$ 83,586
2009	28,231	3,600	31,831
2010	29,943	1,889	31,832
2011	15,643	270	15,913
Total	<u>\$ 151,089</u>	<u>\$ 12,073</u>	<u>\$ 163,162</u>

# Advanced Technology Academy

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

The note consists of the following:

Date	Original Amount	Due Date	Interest Rate	Remaining to Maturity	
				Interest	Principal
10/12/2005	\$ 400,000	10/12/2007	7.25	\$ 1,100	\$ 50,654

**Capital Leases** - The Academy has entered into a lease agreement as lessee for financing the purchase of student transportation vehicles. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

2008	\$ 31,831
2009	31,831
2010	31,831
2011	<u>15,916</u>
Total minimum lease payments	111,409
Less amount representing interest	<u>10,974</u>
Present value of minimum lease payments	<u><u>\$ 100,435</u></u>

### Note 8 - Management Company

The Academy has entered into a management agreement effective through June 30, 2010. The management company is responsible for all of the management, operation, administration, and education at the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for operating costs. The management agreement requires the Academy to pay a management fee not to exceed 12 percent of the gross receipts of the Academy less all General Fund local revenues, Food Services Fund revenues, and Student Activity Fund revenues. Management fees, as charged by the management company for the year ended June 30, 2007, were calculated at 12 percent of General Fund state and federal revenue.

The Academy incurred management fees totaling \$894,187 for the year ended June 30, 2007. At June 30, 2007, accrued expenditures include \$305,219 for reimbursement of subcontracted employees and other operating costs and \$146,218 for management fees.

# **Advanced Technology Academy**

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## **Notes to Financial Statements June 30, 2007**

### **Note 9 - Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the management company discussed in Note 8. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverages since inception.

### **Note 10 - State Aid Anticipation Note**

During the year, the Academy borrowed \$1,867,668 in a state aid anticipation note. The note bore interest at 7.9 percent and was paid in full on August 31, 2007.

### **Note 11 - Subsequent Events**

Subsequent to year end, the Academy borrowed \$1,700,000 at an annual interest rate of 6.5 percent on a state aid anticipation note. The note, plus interest, is due July 26, 2008.

## **Required Supplemental Information**

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# Advanced Technology Academy

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 45,860	\$ 53,155	\$ 55,880	\$ 2,725
State sources	6,700,200	7,131,379	7,131,097	(282)
Federal sources	210,824	308,912	308,461	(451)
Total revenue	6,956,884	7,493,446	7,495,438	1,992
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	2,617,036	2,646,482	2,644,282	(2,200)
Added needs	380,929	505,100	495,612	(9,488)
Support services:				
Pupil	371,941	328,600	332,968	4,368
Instructional staff	298,492	409,432	407,502	(1,930)
General administration	392,706	409,033	407,531	(1,502)
School administration	530,092	472,890	473,195	305
Business services	358,365	456,779	455,681	(1,098)
Operation and maintenance	1,326,391	1,432,870	1,432,063	(807)
Pupil transportation services	25,000	135,271	134,745	(526)
Central	362,374	348,833	348,529	(304)
Other	2,650	837	837	-
Facilities acquisition	-	116,219	116,219	-
Debt service:				
Principal	203,514	218,097	219,305	1,208
Interest	11,939	13,292	14,386	1,094
Total expenditures	6,881,429	7,493,735	7,482,855	(10,880)
<b>Other Financing Sources (Uses)</b>				
Transfers out	(50,500)	(52,500)	(48,798)	3,702
Proceeds from long-term debt	-	113,724	113,724	-
Total other financing sources (uses)	(50,500)	61,224	64,926	3,702
<b>Net Change in Fund Balance</b>	24,955	60,935	77,509	16,574
<b>Fund Balance - July 1, 2006</b>	256,964	435,573	435,572	-
<b>Fund Balance - June 30, 2007</b>	<u>\$ 281,919</u>	<u>\$ 496,508</u>	<u>\$ 513,081</u>	<u>\$ 16,573</u>

## **Other Supplemental Information**

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# Advanced Technology Academy

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds Year Ended June 30, 2007

	Special Revenue Funds		
	Food		
	Services	Athletics	Total
<b>Assets</b>			
Cash	\$ -	\$ 137	\$ 137
Receivables - Intergovernmental	7,688	-	7,688
Prepaid costs and deposits	100	-	100
Total assets	<u>\$ 7,788</u>	<u>\$ 137</u>	<u>\$ 7,925</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 6,365	\$ 137	\$ 6,502
Due to other funds	1,302	-	1,302
Total liabilities	7,667	137	7,804
<b>Fund Balances</b>	121	-	121
Total liabilities and fund balances	<u>\$ 7,788</u>	<u>\$ 137</u>	<u>\$ 7,925</u>

# Advanced Technology Academy

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2007

	Special Revenue Funds		
	Food Services	Athletics	Total
<b>Revenue</b>			
Local sources	\$ 78,645	\$ 1,062	\$ 79,707
State	11,145	-	11,145
Federal sources	199,945	-	199,945
Total revenue	289,735	1,062	290,797
<b>Expenditures - Current</b>			
Food services	315,352	-	315,352
Athletics	-	24,767	24,767
Total expenditures	315,352	24,767	340,119
<b>Excess of Expenditures Over Revenue</b>	(25,617)	(23,705)	(49,322)
<b>Other Financing Sources - Transfers in</b>	25,617	23,181	48,798
<b>Net Change in Fund Balances</b>	-	(524)	(524)
<b>Fund Balances - Beginning of year</b>	121	524	645
<b>Fund Balances - End of year</b>	<u>\$ 121</u>	<u>\$ -</u>	<u>\$ 121</u>

# **Advanced Technology Academy**

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**Federal Awards  
Supplemental Information  
June 30, 2007**

# Advanced Technology Academy

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## Independent Auditor's Report

To the Board of Directors  
Advanced Technology Academy

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Advanced Technology Academy as of and for the year ended June 30, 2007, which collectively comprise Advanced Technology Academy's basic financial statements, and have issued our report thereon dated October 23, 2007. Those basic financial statements are the responsibility of the management of Advanced Technology Academy. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Advanced Technology Academy's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 23, 2007

Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards*

To the Board of Directors  
Advanced Technology Academy

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of Advanced Technology Academy as of and for the year ended June 30, 2007, which collectively comprise Advanced Technology Academy's basic financial statements, and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Advanced Technology Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Advanced Technology Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Advanced Technology Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiencies described in the accompanying schedule of findings and questioned costs as items 07-01 and 07-02 to be significant deficiencies in internal control over financial reporting.

To the Board of Directors  
Advanced Technology Academy

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described in the accompanying schedule of findings and questioned costs are material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Advanced Technology Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Academy's response to the significant deficiencies and findings relating to compliance and other matters identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 23, 2007

## Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors  
Advanced Technology Academy

### Compliance

We have audited the compliance of Advanced Technology Academy with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The major federal programs of Advanced Technology Academy are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Advanced Technology Academy's management. Our responsibility is to express an opinion on Advanced Technology Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Advanced Technology Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Advanced Technology Academy's compliance with those requirements.

In our opinion, Advanced Technology Academy complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 07-03 and 07-04.

To the Board of Directors  
Advanced Technology Academy

## **Internal Control Over Compliance**

The management of Advanced Technology Academy is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Advanced Technology Academy's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 07-03 to be a significant deficiency in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 23, 2007

# Advanced Technology Academy

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2006	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
Clusters:							
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:							
National School Breakfast Program	10.553	\$ 4,634	\$ -	\$ -	\$ 4,634	\$ 5,311	\$ 677
National School Lunch Program	10.555	199,815	-	21,728	199,815	185,098	7,011
Total Child Nutrition Cluster		204,449	-	21,728	204,449	190,409	7,688
Special Education Cluster - U.S. Department of Education - Passed through the Wayne County ISD - IDEA - Project number 070450 0607	84.027	34,608	-	-	31,147	34,607	3,460

# Advanced Technology Academy

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2006	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
Other federal awards:							
U.S. Department of Education - Passed through the Michigan							
Department of Education:							
Title I :	84.010						
Project number 061530 0506		\$ 70,147	\$ 62,100	\$ 6,890	\$ 14,937	\$ 8,047	\$ -
Project number 071530 0607		<u>266,433</u>	<u>-</u>	<u>-</u>	<u>220,209</u>	<u>230,988</u>	<u>10,779</u>
Total Title I		336,580	62,100	6,890	235,146	239,035	10,779
Title V:	84.298						
Project number 060250 0506		172	2,035	172	172	-	-
Project number 070250 0607		<u>1,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>94</u>	<u>94</u>
Total Title V		2,087	2,035	172	172	94	94
Technology Literacy Challenge Grants:							
Project number 054290 0506	84.318	2,097	2,097	2,097	2,097	-	-
Project number 064290 0607		<u>1,309</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,309</u>	<u>1,309</u>
Total Technology Literacy Challenge Grants		3,406	2,097	2,097	2,097	1,309	1,309

# Advanced Technology Academy

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2007

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2006	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
Other federal awards (Continued):							
U.S. Department of Education - Passed through the Michigan Department of Education (Continued):							
Improving Teacher Quality:	84.367						
Project number 060520 0506		\$ 23,293	\$ 12,542	\$ 12,542	\$ 22,173	\$ 9,631	\$ -
Project number 060520 0607		1,120	-	-	1,120	1,120	-
Project number 070520 0607		32,975	-	-	11,505	22,665	11,160
Total Improving Teacher Quality		57,388	12,542	12,542	34,798	33,416	11,160
Total noncluster U.S. Department of Education programs passed through the Michigan Department of Education		399,461	78,774	21,701	272,213	273,854	23,342
U.S. Department of Agriculture - Passed through the Michigan Department of Education - Food Distribution:							
Entitlement commodities - 2006-2007	10.550	13,972	-	-	8,758	8,758	-
Bonus commodities - 2006-2007		778	-	-	778	778	-
Total Food Distribution		14,750	-	-	9,536	9,536	-
Total federal awards		<u>\$ 653,268</u>	<u>\$ 78,774</u>	<u>\$ 43,429</u>	<u>\$ 517,345</u>	<u>\$ 508,406</u>	<u>\$ 34,490</u>

# **Advanced Technology Academy**

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## **Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007**

### **Note 1 - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Advanced Technology Academy (the "Academy") and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### **Note 2 - Noncash Assistance**

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

### **Note 3 - Grant Section Auditor's Report**

Management has utilized Form R-7120 and the Cash Management System (CMS) grant auditor report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

# Advanced Technology Academy

## Schedule of Findings and Questioned Costs Year Ended June 30, 2007

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I
84.367	Improving Teacher Quality

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

# Advanced Technology Academy

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section II - Financial Statement Audit Findings

Reference Number	Findings
07-01	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - The Academy is required to recognize revenue and expense under the federal food distribution grant equal to the value of commodities received by the Academy during the year.</p> <p><b>Condition</b> - The Academy did not record revenue and expense for these commodities received and used in the Academy's food service program during the year ended June 30, 2007.</p> <p><b>Context</b> - The Academy earned revenue for these commodities when the food service provider to the Academy received these commodities and used them in providing meals to the Academy's students during the year. An audit entry was proposed and recorded to increase revenue and expense in the Food Service Fund by \$9,536.</p> <p><b>Effect</b> - Revenue and expense were understated by \$9,536 for the year ended June 30, 2007 prior to the adjusting entry being recorded.</p> <p><b>Cause</b> - The Academy did not properly review activity related to the commodities program for accounting impact.</p> <p><b>Recommendation</b> - The Academy should review all commodity program activity to ensure activity is properly included the Academy's accounting records.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Academy will enhance its review of the commodities program to ensure amounts are properly included in the Academy's accounting records.</p>

# Advanced Technology Academy

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
07-02	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - The Academy is required to capitalize and depreciate certain capital expenditures in the Academy-wide financial statements. Capital expenditures are expensed in the fund financial statements, but should be recorded as an asset and depreciated over the estimated useful life on the Academy-wide financial statements.</p> <p><b>Condition</b> - While the Academy properly capitalized these expenditures on the Academy-wide financial statements, certain expenditures were capitalized twice and depreciated through June 30, 2007.</p> <p><b>Context</b> - The Academy purchased certain capital assets during the year, recorded expenditures once in the fund level financial statements and recorded them twice as assets in the Academy-wide financial statements. An audit entry was proposed and recorded to decrease capital asset cost and investment in capital assets by \$246,084 and to decrease depreciation expense and accumulated depreciation by \$39,127.</p> <p><b>Effect</b> - Total assets on the Academy-wide financial statements were overstated by \$206,937 and depreciation expense and accumulated depreciation were overstated by \$39,127 for the year ended June 30, 2007 prior to the adjusting entry being recorded.</p> <p><b>Cause</b> - The Academy did not properly review its capital asset detail listing when posting journal entries to the Academy's accounting records.</p> <p><b>Recommendation</b> - The Academy should review capital asset detail listing to ensure amounts are properly recorded in the Academy's accounting records.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Academy will enhance its review of the capital asset detail listing to ensure amounts are properly recorded in the Academy's accounting records.</p>

# Advanced Technology Academy

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section III - Federal Program Audit Findings

Reference Number	Findings
07-03	<p><b>Program Name</b> - CFDA# 84.010 - Title I and CFDA# 84.367 - Improving Teacher Quality</p> <p><b>Pass-through Entity</b> - Michigan Department of Education</p> <p><b>Finding Type</b> - Significant deficiency, other noncompliance</p> <p><b>Criteria</b> - In accordance with the A-133 Compliance Supplement and the Michigan School Auditing Manual, cash may not be requested in excess of immediate cash needs. In addition, Michigan Department of Education reimbursement request forms indicate three days.</p> <p><b>Condition</b> - Reimbursements requested were in excess of immediate cash needs.</p> <p><b>Questioned Costs</b> - Not determinable</p> <p><b>Context</b> - The Academy contracts with a management company for the management, operation, administration, and education of the Academy. The management company requested federal funds in excess of immediate cash needs.</p> <p><b>Cause and Effect</b> - The management company contracted by the Academy believed that the requests for funds were appropriate.</p> <p><b>Recommendation</b> - The Academy should ensure that requests are disbursed within the appropriate timeline.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Academy believes that the requests for funds were appropriate because during the time of these requests the state cash management system permitted requests for immediate cash not to exceed 30 days. The Academy will comply with the new three-day rule on all future disbursement requests.</p>

# Advanced Technology Academy

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
07-04	<p><b>Program Name</b> - CFDA# 84.367 - Improving Teacher Quality and CFDA# 84.010 - Title I</p> <p><b>Pass-through Entity</b> - Michigan Department of Education</p> <p><b>Finding Type</b> - Other noncompliance</p> <p><b>Criteria</b> - In accordance with OMB Circular A-110, the Academy must have a written policy on ethical behavior.</p> <p><b>Condition</b> - The Academy does not have a written policy pertaining to ethical conduct.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - The Academy contracts with a management company for the management, operation, administration, and education of the Academy. The Academy did not properly review the requirements under Improving Teacher Quality and Title I and the management company did not make the Academy aware of the need for a written policy pertaining to ethical behavior.</p> <p><b>Cause and Effect</b> - The Academy was not aware of the need for a written policy pertaining to ethical behavior as Improving Teacher Quality and Title I requirements were not properly reviewed.</p> <p><b>Recommendation</b> - The Academy should ensure that a written policy pertaining to ethical behavior is developed for the current school year.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Academy will ensure that a written policy pertaining to ethical behavior is developed for the current school year.</p>

# **Advanced Technology Academy**

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**Report to the Board of Directors**

**June 30, 2007**



**Plante & Moran, PLLC**  
Suite 100  
1111 Michigan Ave.  
East Lansing, MI 48823  
Tel: 517.332.6200  
Fax: 517.332.8502  
plantemoran.com

To the Board of Directors  
Advanced Technology Academy

We have recently completed our audit of the basic financial statements of Advanced Technology Academy (the "Academy") for the year ended June 30, 2007. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, recommendations, and informational comments, which impact the Academy:

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<b>Letter of Increased Audit Communications</b>	1-2
<b>Required Audit Communication</b>	3-6
<b>Informational</b>	7
State Aid Issues	8
Federal Programs Cash Management	9
New Auditing Pronouncements	9-10

We are grateful for the opportunity to be of service to the Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

October 23, 2007



Plante & Moran, PLLC  
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East Lansing, MI 48823  
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October 23, 2007

To the Board of Directors  
Advanced Technology Academy

Dear Board Members:

This year, new auditing rules will result in some changes in the communications you receive from us related to our audit work. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we will likely be telling you about more items than we may have in the past, and we will communicate them in writing in all cases.

We will be informing you about any deficiencies we observe in your accounting procedures or internal controls that we believe are significant. The new threshold for significant deficiencies is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. The users of your financial statements could include management, members of the board of directors, state, federal, and other regulatory agencies, certificate of participation holders, or other parties with an interest in your financial information.

We will also be required to communicate these matters to more people. You may be used to receiving our comments and observations as part of a meeting or discussion at the end of our work, or we may have provided comments on accounting matters directly to management. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the board of directors, in addition to our communications with management.

While it will be up to you to determine what, if any, actions you take to correct any deficiencies we bring to your attention, we will also be obligated to continue to reference uncorrected deficiencies in our future audits.

An audit of financial statements is significantly different in scope than an audit of internal controls, and our audit of your financial statements cannot be relied on to identify or detect all deficiencies in your internal controls or accounting procedures. These new auditing rules are intended to enhance our communications to you and will not change the nature and extent of our work in this area.

To the Board of Directors  
Advanced Technology Academy

October 23, 2007

In addition to the comments and recommendations in this letter, our observations and comments regarding Advanced Technology Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (single audit report), and we recommend that the matters we have noted there receive your careful consideration.

In addition to the new rules discussed above, there are more new auditing rules that will be effective for audits conducted in 2008. We will be providing you with more information about the impact of these rules in the upcoming months. If you would like to discuss any of these matters further, please do not hesitate to contact us.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Michael D. Foster". The signature is written in a cursive, flowing style with a large initial "M".

Michael D. Foster, CPA  
Partner

October 23, 2007

To the Board of Directors  
Advanced Technology Academy

Dear Board Members:

We have recently completed our audit of the basic financial statements of Advanced Technology Academy (the "Academy") for the year ended June 30, 2007. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the board of directors and others within the organization.

### **Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America**

We conducted our audit of the basic financial statements of Advanced Technology Academy in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

### **Auditor's Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws and Regulations**

In the audit process, we gain an understanding of the internal control structure of an entity as well as the laws and regulations having a direct and material effect on the entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, observation, and review of Academy documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the entity's internal control structure or the entity's compliance with laws and regulations.

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditors' reports who require additional information on internal controls and on compliance with laws and regulations. To meet certain audit report users' needs, laws and regulations often prescribe testing and reporting on internal controls and compliance to supplement the financial statement audit's coverage of these areas. In accordance with regulatory requirements covering federal awards financial assistance, supplemental testing of and reporting on internal controls and compliance were performed. Nevertheless, even after performing and reporting the results of these additional tests of internal controls and compliance required by laws and regulations, some reasonable needs of report users still may be unmet. We may meet these needs by performing further tests of internal controls and compliance with laws and regulations in either of two ways:

1. Supplemental (or agreed-upon) procedures, or
2. Examination, resulting in an opinion

For the year ended June 30, 2007, we were not engaged to, nor did we, perform the additional services listed in #1 and #2 above.

### **Significant Accounting Policies**

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

### **Management's Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you about accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. In this connection, we noted no matters related to sensitive accounting estimates.

### **Significant Audit Adjustments**

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. The following matters are being reported to you in this area.

1. Revenue and expense related to federal commodities received as part of the food service program were increased by \$9,536 (Finding 07-01).
2. The cost of capital assets was decreased by \$246,084 and depreciation and accumulated depreciation related to those assets were decreased by \$39,127 (Finding 07-02).

Additional information on each of these items can be found in Section II - Financial statement audit findings of the schedule of findings and questioned costs which is included in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (single audit report).

Auditing standards also require us to inform you about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In this connection, we noted no unrecorded possible financial statement adjustments.

October 23, 2007

### **Disagreements with Management**

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the Academy's financial statements, or the wording of our report. In the interest of keeping you informed of all significant matters, such differences are required to be reported to you even though they are satisfactorily resolved. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

### **Consultation with Other Accountants**

Management has informed us that, during the year, it had no consultations with other accountants.

### **Difficulties Encountered in Performing the Audit**

We are pleased to inform you that we encountered no significant difficulties in performing the audit.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Michael D. Foster". The signature is stylized with a large, looped "M" and a cursive "F".

Michael D. Foster, CPA  
Partner

## **Informational**

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### State Aid Issues

#### 2006/2007

Almost since the governor signed the 2006 State Aid Act into law, it was unclear if academies would receive the revenue promised. In January 2007, the revenue estimating conference predicted that the School Aid Fund would be short \$224/pupil. Since that date, the governor and legislature worked on funding alternatives to prevent the projected cut from becoming a reality. In June 2007, as school was ending, they came to an agreement on several measures. The result of the measures, among many features, included the following:

- **Foundation Allowance** - No proration and the Academy did receive the promised \$210 increase in the base foundation allowance. Primary factors eliminating the requirement to prorate were securitization of future tobacco settlement proceeds and a credit generated from MPSERS.
- **Categoricals** - The above actions taken also allowed the State to fully fund the categoricals promised in the 2006 State Aid Act legislation.

#### 2007/2008

- **Funding Levels** - With 2006/2007 finally resolved, the governor and legislature have begun working on state budget issues for 2007/2008. The State's fiscal year did not begin until October 1, 2007. Now that they have replaced the single business tax with the Michigan business tax, they are working on a series of cost/restructuring and revenue increase measures. Many of the cost measures and some of the revenue measures will likely impact school districts and the School Aid Fund. It is likely that the goal of the measures will be to add some stability in the cost of operations and in the revenue sources going into the School Aid Fund. Since the focus for the spring and summer has been on 2006/2007, there is little specific information on the level of school funding or the types of categoricals that will be put in place for 2007/2008.

As the legislation moves forward, the specific implications for each academy will become clearer. One thing is certain; there will, once again, be significant unknowns as the Academy begins its 2007/2008 school year.

### Federal Programs Cash Management

For many years, the 30-day rule said a school district could request up to 30 days' future cash needs when submitting a reimbursement request for federal grant funds. Beginning with the 2007 fiscal year, a school district could only request up to three days' future cash needs; the MEGS system now reflects this change. Beginning with the 2008 fiscal year, this three-day window will be shortened to one day. This can have a big impact on cash flow for academies that relied on the 30-day rule. We want to ensure that the Academy's administrators are aware of this change, as future audits will be following these revised rules.

### New Auditing Pronouncements

**Statements on Auditing Standards 104 to 111 - The Risk Assessment Standards** - The AICPA issued Statements on Auditing Standards (SAS 104 - SAS 111), which will substantially affect the auditing process. The effective date for academy audits will be for the audit of financial statements for and after the year ending June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

- The auditor to obtain a deeper understanding of (1) the Academy and its internal control, for the purpose of identifying the risks of material misstatement in the financial statements and (2) what the Academy is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We have invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance to the requirements, which is tailored to the unique environment for Michigan schools. As a result, our 2008 audit process will have many new features and elements built in. We will work with the Academy to understand the elements, involve it in the information gathering process, and perform audit tests focused on the risks embedded in the Academy's financial statements. To provide the Academy with as much lead time as possible in the data gathering process, we will review the information needs and provide the Academy the tools necessary in fall 2007.

**Statement on Auditing Standards 114 - Communication with Those Charged with Governance** - The AICPA issued Statement on Auditing Standards (SAS) 114, which will increase the amount of information provided to the board of directors, management, and others charged with governance about the audit process and results. This standard, effective for the June 30, 2008 audit, will provide information describing what an audit is, emphasizing management's role in the financial statement reporting process, identifying issues encountered during the audit, and clarifying what must be communicated in writing. This required communication will be in addition to the financial statements, management letter, and single audit report already received by the Academy.

**Government Auditing Standards (2007 Revision)** - The Government Accountability Office (GAO) has finalized its revisions to *Government Auditing Standards* (the "Yellow Book"). These revisions were issued in January 2007. All academies in Michigan are required to be audited under the Yellow Book requirements in addition to the audit standards issued by the Auditing Standards Board. Most of these Yellow Book changes will be effective for the June 30, 2009 academy audits. However, the Yellow Book does incorporate the SASs issued by the AICPA and those requirements will be effective based on the effective date of the SAS. The changes unique to the Yellow Book are substantive and will impact audit approach, audit documentation, and audit reporting. Some likely impacts from the changes include:

- Clarified ethics and competency considerations when audit services are performed
- Increased use of "emphasis of matter" comments in the auditor's opinion when unique financial statement matters impact the financial statements
- Increased evaluation of compliance with auditor independence requirements
- Increased expectation of academies to maintain and prepare their financial information for audit

These changes, along with the other changes in the auditing standards, continue to increase the level of audit effort required by the auditor and the amount of information provided to the Academy. We will work closely with the Academy to simplify and clarify changes as they continue to become effective.